

Middle East Specialized Cables Co. (MESC)

INDUSTRIALS | COMPANY UPDATE

13 April 2026

Raising target price to SAR 40 as margin expansion and pricing power supports stronger earnings outlook; stock up +27% since initiation in February

Robust margin expansion drives significant earnings beat amid flat top-line growth: MESC delivered a robust earnings surprise in 4Q25, characterized by substantial margin expansion despite a stable sequential revenue performance. Revenue reached SAR 382mn (+21.7% y/y; +0.3% q/q), perfectly aligning with our forecasts. However, profitability significantly exceeded expectations, on account of favorable product mix, as the gross margin reached 18.6% against our 15.2% estimate, while the operating margin climbed to 11.2% compared to the projected 8.5%. This strong margin performance translated to a significant bottom-line beat, with 4Q25 EPS hitting SAR 0.81, well ahead of our SAR 0.61 projection.

Adjusted gross margins signal higher core profitability following conservative accounting shifts: On an adjusted basis, MESC's underlying profitability appears even more robust. The company recorded a substantial increase in provisioning for late deliveries during 4Q25, amounting to SAR 8.6mn and bringing the annual total to SAR 12.9mn, a nearly sevenfold increase year-on-year. This surge stems from a shift toward a highly conservative 100% claim assumption, despite actual historical claims tracking significantly lower at ~20% of contractual obligations. While this line item was previously reported separately on the P&L, its recent reclassification into COGS weighed on the reported gross margin and, excluding this charge, the adjusted gross margin for 4Q25 would have come in at a very robust 20.9%. Looking ahead, we expect these costs to normalize to a quarterly run-rate of approximately SAR 1.5mn to 2mn as the company maintains its conservative provisioning stance. The underlying delivery delays are linked to vendor dependencies for specific supplies, which management intends to address by investing SAR 5mn to 10mn to build in-house capabilities. Given the modest scale of this capex, we expect MESC to see the operational benefits starting in 2027, wherein they are able to ensure timely deliveries, eventually leading to the total elimination of these provisions. However, any subsequent reversal of the existing provision balance is expected to be gradual, aligning with the 3 to 5-year duration of the underlying contractual obligations.

Gross margin base case revised upwards: Following the margin expansion in 4Q25, we have upwardly revised our 2026 gross margin base case to 17%, up from our previous 15% estimate. Despite this adjustment, we maintain a conservative outlook on margins due to ongoing uncertainty regarding the product mix. Our model accounts for elevated copper prices ranging between USD 12,000 and USD 13,000 per ton throughout 2026. Contrary to our earlier view that higher copper costs would compress margins, we now anticipate that rising prices will drive higher absolute gross profit. This shift is supported by MESC's demonstrated ability to pass on costs within a market environment that supports upward repricing. It should be noted that as copper price increases are transferred to customers other production costs remain largely fixed, enabling the company to see an absolute increase in gross profit while the margins continue to be dictated by fluctuations in the product mix.

Result Summary <i>In SARmn, unless otherwise stated</i>	4Q24A	3Q25A	4Q25A	4Q25E	Var. vs Est	Y/Y	Q/Q
Revenue	313.5	380.5	381.6	382.5	-0.2%	21.7%	0.3%
Gross Profit - Reported	51.6	56.5	71.1	58.1	22.2%	37.8%	25.8%
GPM%	16.4%	14.8%	18.6%	15.2%			
Add: Provision for late deliveries	0.3	3.4	8.6	-2.6	NM	2767%	151%
Gross Profit - Adjusted	51.9	59.9	79.7	55.6	43.4%	53.6%	32.9%
Adj. GPM%	16.5%	15.7%	20.9%	14.5%			
Selling & Marketing Expense	-9.4	-9.5	-10.4	-9.6	8.9%	11.3%	9.8%
% Of revenue	3.0%	2.5%	2.7%	2.5%			
General and administrative Expense	-10.6	-17.1	-17.3	-16.1	7.5%	62.4%	1.2%
% Of revenue	3.4%	4.5%	4.5%	4.2%			
Impairment in trade receivable	-0.9	-0.8	-0.8	-2.5	-67.6%	-6.1%	0.0%
Operating Profit - Reported	30.7	29.1	42.6	32.6	30.5%	38.6%	46.1%
OPM%	9.8%	7.7%	11.2%	8.5%			
Net Income - Reported	24.3	20.3	32.3	24.3	32.9%	32.8%	58.9%
NI%	7.7%	5.3%	8.5%	6.3%			
EPS (SAR)	0.61	0.51	0.81	0.61	32.9%	32.8%	58.9%

Source: Company data, Derayah Financial



Rating **BUY**
 Target price **SAR 40.00**
 Last price* **SAR 28.76**
 Upside potential **39%**

*As on 12th Apr 2026

Stock info

Saudi Exchange / Bloomberg symbol	2370 / MESC:AB
MCap (SARmn / USDmn)	1,150 / 307
Daily traded value 3M avg. (SARmn / USDmn)	12.8 / 3.4
Free float %	96.1%
Foreign ownership* / limit	6.6% / 49.0%

*As on 12th Apr 2026

Key shareholders

Mansour Abdelaziz Mohammed Kaaki	6.4%
Al Namlah Mohammed Abdulaziz	2.8%
Al Namlah Sulaiman Bin Mohammed	1.0%

Source: Bloomberg

Share performance (1-yr return)



Source: Bloomberg

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Operating expense outlook remains stable as operating leverage offsets rising freight costs: Regarding operating expenses, we anticipate elevated freight costs, historically around 0.4% of revenue, resulting from higher domestic distribution expenses and increased international marine logistics costs, driven by rising diesel prices, increased shipping cost and the higher insurance premiums for sea freight. However, we expect these inflationary pressures to be mitigated by enhanced operating leverage as the company maintains its robust top-line growth. Consequently, our operating expense assumption remains unchanged at ~7% of revenue.

Higher working capital requirements to elevate interest costs, however coverage ratio continues to be strong; fed rate cuts offer potential upside: Interest expenses are expected to trend upward as higher volumes and elevated copper prices increase working capital requirements, which are typically debt-financed. This rising capital need is also evidenced by the company's recent expansion of its credit facility with Alinma Bank from SAR 150mn to SAR 250mn. Nevertheless, we expect the interest coverage ratio to continue to remain at comfortable levels considering the higher level of operation and improved profitability outlook. Also, given the Saudi riyal's peg to the US dollar and the current dovish stance of the Federal Reserve, any potential US rate cuts represent an upside risk that could moderate our interest expense assumptions.

Summary: We continue to see upside potential in this stock even after the post result rally given our conviction in its strong fundamentals, seasoned management team and the long-term prospects for the cables industry in the region. While margins can be volatile and the quarterly trend could often be lumpy, we highlight that such volatility is inherent in the business model given its susceptibility to product mix changes. The projects it supplies cables to typically require most of the cables from its portfolio and as such demand for a specific cable largely depends on the execution stage of the project. We believe any substantial drop in the stock price owing to an adverse mix is most likely a buying opportunity given the likelihood of a turnaround in margins.

Valuation: We have revised our 2026 EPS estimate upwards to SAR 3.1 and have moderated our target P/E multiple to 13.1x from 13.6x to account for a heightened geopolitical risk premium. This results in a revised relative valuation target price of SAR 40.6, implying a 41% upside.

Our DCF-based valuation, based on 11.7% WACC (11.3% earlier) and a 2% terminal growth rate, yields a target price of SAR 39.4, suggesting a 34% upside.

By applying an equal weightage to both the DCF and relative valuation methodologies, we arrive at a blended target price of SAR 40.0, representing an upside potential of 37%.

Key Upside Risks:

- **Accelerated Demand in Specialized Segments:** Increased requirements from Oil & Gas and Petrochemical clients for high-margin specialized cables, potentially driven by infrastructure reconstruction following reported facility damages
- **Monetary Policy Easing:** A reduction in the Fed funds rate leading to a commensurate decline in the Saudi Repo rate, resulting in lower-than-anticipated interest expenses

Key Downside Risk:

- **Adverse Product Mix:** Margins remain susceptible to fluctuations in the product mix, as demand for specific cable types is largely dictated by the execution and completion stages of client projects
- **Geopolitical and Logistical Disruptions:** Persistent geopolitical instability could lead to higher-than-forecasted marine freight costs and potential supply chain bottlenecks for essential raw materials
- **Fiscal Consolidation:** A potential reduction in government expenditure due to fiscal deficit concerns could negatively impact overall infrastructure spending and project pipelines
- **Sector-Level Price Resistance:** Persistent inflationary pressures may lead to customer pushback or a cooling of demand across the broader industrial sector

Estimates for 1Q2026

In SARmn, unless otherwise stated

	1Q25A	4Q25A	1Q26E	Y/Y	Q/Q
Revenue	339.0	381.6	430.5	27.0%	12.8%
Gross Profit - Reported	50.3	71.1	73.2	45.5%	3.0%
GPM%	14.8%	18.6%	17.0%		
Add: Provision for late deliveries	-0.4	-8.6	-1.8	325.4%	-79.0%
Gross Profit - Adjusted	50.7	79.7	75.0	47.9%	-5.8%
Adj. GPM%	15.0%	20.9%	17.4%		
Selling & Marketing Expense	-7.8	-10.4	-10.8	38.0%	3.4%
% Of revenue	2.3%	2.7%	2.5%		
General and administrative Expense	-14.2	-17.3	-19.4	36.7%	12.2%
% Of revenue	4.2%	4.5%	4.5%		
Impairment in trade receivable	-0.6	-0.8	-0.9	32.2%	6.9%
Operating Profit - Reported	27.7	42.6	40.4	46.0%	-5.1%
OPM%	8.2%	11.2%	9.4%		
Net Income	19.2	32.3	28.0	45.6%	-13.3%
NI%	5.7%	8.5%	6.5%		
EPS (SAR)	0.48	0.81	0.70	45.6%	-13.3%

Source: Company data, Derayah Financial

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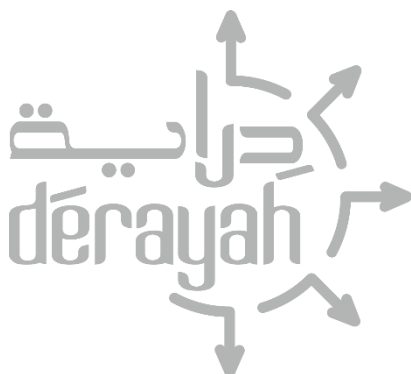
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